



AUSTRALIA

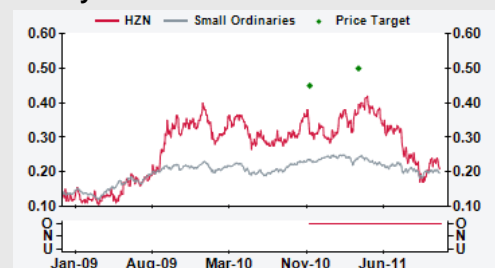
HZN AU **Outperform**
Close Price* 24 Nov 11 **A\$0.21**

Volatility index		High
12-month target	A\$	0.50
12-month TSR	%	+138.1
Valuation	A\$	0.58
- DCF (WACC 11.1%, beta 1.6, ERP 5.0%, RFR 6.1%)		
GICS sector		Energy
Market cap	A\$m	237
30-day avg turnover	A\$m	0.5
Number shares on issue	m	1,131

Investment fundamentals

Year end 30 Jun		2011A	2012E	2013E	2014E
Revenue	m	59.4	65.9	149.9	200.8
EBIT	m	32.6	36.6	65.0	95.7
Reported profit	m	34.9	21.7	38.3	61.1
Adjusted profit	m	16.3	21.7	38.3	61.1
Gross cashflow	m	27.2	33.5	76.0	102.5
CFPS	¢	2.4	3.0	6.7	9.1
CFPS growth	%	-15.4	23.4	126.7	34.8
PGCFPS	x	8.5	6.9	3.0	2.2
PGCFPS rel	x	0.86	0.85	0.45	0.35
EPS adj	¢	1.4	1.9	3.4	5.4
EPS adj growth	%	-17.6	33.3	76.5	59.3
PER adj	x	14.1	10.6	6.0	3.8
PER rel	x	0.87	0.88	0.63	0.42
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	14.0	12.0	19.2	24.5
ROE	%	12.2	13.3	19.8	25.1
EV/EBITDA	x	4.1	3.7	1.7	1.3
Net debt/equity	%	-33.4	-9.4	-12.8	-44.5
P/BV	x	1.5	1.3	1.1	0.8

HZN AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2011
(all figures in USD unless noted)

Analyst(s)

Kirit Hira
+61 2 8232 9692 kirit.hira@macquarie.com
Adrian Wood
+61 2 8232 8531 adrian.wood@macquarie.com

24 November 2011
Macquarie Securities (Australia) Limited

Horizon Oil

Stanley gas sales one step closer

Event

- Highlands Pacific and Xstrata Copper have agreed to extend completion of a feasibility study into the Frieda River copper/gold project in PNG until December 2012 to evaluate new power supply energy options.
- Following an upgrade of gas resources at the Stanley gas field to 361bcf, we believe gas-fired generation could be a viable power supply alternative to the previously proposed hydro-electric dam.

Impact

- Optionality surrounding the gas resource:** With Stanley gas sales now being incorporated into HZN's own production forecast, it appears discussions to supply gas-fired power to nearby mining operations are progressing. The Ok Tedi mine currently consumes ~60ML/yr of diesel (in the absence of hydro-electric capacity) and the proposed Frieda River copper/gold mine incorporated a 160MW, ~US\$800m hydro-electric dam into its pre-feasibility plan. However we suspect gas-fired generation and electrification of the region is likely to offer low cost & more reliable power supply to mining projects and a well supported solution by the PNG government.
- Material gas volumes required to supply mines...:** We estimate gas supply to the Ok Tedi mine could be between 3-4bcf/a (based on the 57MW Ok Menga hydro-electric run-of-river scheme providing 75% of power requirements). However given the larger 160MW of generation capacity proposed for the Frieda River project, required gas volumes could be as large as 15bcf/a. Consequently, assuming a 20-year contract term, the entire Stanley gas resource could potentially be commercialised.
- ...However commercialisation likely to be long-dated:** While we expect gas sales to Ok Tedi could commence with the liquids (first production is proposed in early 2014), sales to Frieda River are unlikely to begin until 2018 (given the delays to feasibility studies). Furthermore, despite the scale of the mineral resource, the development remains in an early stage (as evidenced by the decision to defer the January 2012 milestone and review other development options). That said, any gas sold is likely to incrementally reduce Stanley operating costs (particularly re-injection costs) and require negligible additional capital during development of the liquids stripping project.

Earnings and target price revision

- NAV rises by 2% to 58Acps:** We have modelled gas sales agreements to Ok Tedi and Frieda River and attached a risk weighting of 25%.

Price catalyst

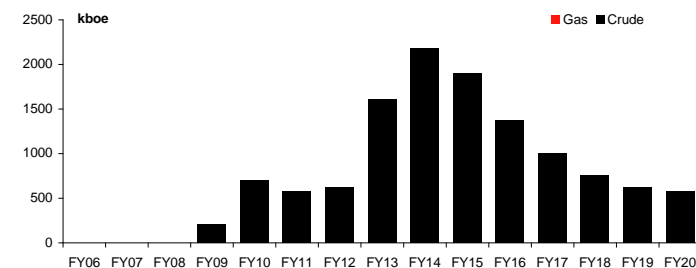
- 12-month price target: A\$0.50 based on a DCF methodology.
- Catalyst: A final investment decision on the Stanley liquids stripping project is expected by year end.

Action and recommendation

- Maintain an Outperform rating and a A\$0.50/sh target:** HZN remains on track to sanction Stanley liquids stripping by year-end. That said, with much of the project-related news now delivered, attention will turn to HZN's ability to fund the development.

Fig 1 Horizon Oil financials

Horizon Oil (HZN-AU)							Share Price: A\$0.21								
Outperform							Shares: 1130.8m								
Profit & Loss							Price assumptions								
Sales revenue	US\$m	2H11E	2H11E	FY11A	FY12E	FY13E	FY14E	US\$/A\$	¢	2H11E	2H11E	FY11A	FY12E	FY13E	FY14E
add other income	US\$m	(1)	-	(1)	-	-	-	Oil - Brent	US\$/bbl	111.31	106.59	96.76	102.55	96.00	95.82
Total revenue	US\$m	33	32	59	66	150	201	Production							
less operating costs	US\$m	(8)	(8)	(15)	(18)	(47)	64	Natural gas	PJ	-	-	-	-	-	-
EBITDAX	US\$m	26	23	44	48	103	137	Crude & condensate	kbbls	272.9	289.2	576.2	618.8	1,603.8	2,181.9
less exploration expensed	US\$m	(0)	-	(0)	(1)	(6)	(2)	Total production	kboe	272.9	289.2	576.2	618.8	1,603.8	2,181.9
EBITDA	US\$m	25	23	43	47	97	135	Production rate	bopd	1,495	1,584	1,579	1,695	4,394	5,978
less dep. & amort.	US\$m	(5)	(5)	(11)	(11)	(32)	(39)	Reserves							
less other non-cash costs	US\$m	(0)	-	(0)	-	-	-	Natural gas	Tcf	-	-	-	-	-	-
EBIT	US\$m	20	18	33	37	65	96	Crude & condensate	mmbbl	11.4	10.8	9.2	7.0		
less net interest	US\$m	(2)	(2)	(3)	(3)	(5)	(3)	Total reserves	mmbbl	16.8	16.2	14.6	12.4		
Pre-tax operating profit	US\$m	18	17	30	33	60	92	2P reserve life	years	27.1	10.1	6.7	6.5		
less tax expense (incl APT)	US\$m	(8)	(6)	(14)	(12)	(22)	(31)	Mkt cap / 2P reserves	US\$/boe	14.9	13.9	15.2	18.5		
Net operating profit	US\$m	11	11	16	22	38	61	EV / 2P reserves	US\$/boe	15.5	16.1	17.9	21.0		
add non-recurring items	US\$m	26	-	19	-	-	-	Per bbl statistics							
Reported profit	US\$m	37	11	35	22	38	61	Sales Revenue / boe	US\$/boe	126.7	110.0	103.0	106.5	93.5	92.0
Adjusted profit	US\$m	11	11	16	22	38	61	EBIT / boe	US\$/boe	73.3	63.8	56.6	59.1	40.5	43.9
EPS (Adjusted)							Reserves								
EPS Growth	%	83%	4%	(18%)	33%	76%	59%	Natural gas	Tcf	-	-	-	-	-	-
DPS	USc	-	-	-	-	-	-	Crude & condensate	mmbbl	11.4	10.8	9.2	7.0		
DPS	Ac	-	-	-	-	-	-	Total reserves	mmbbl	16.8	16.2	14.6	12.4		
Franking	%	0%	0%	100%	100%	100%	100%	2P reserve life	years	27.1	10.1	6.7	6.5		
EFPOWA shares on issue	m	1,131	1,131	1,130	1,131	1,131	1,131	Mkt cap / 2P reserves	US\$/boe	14.9	13.9	15.2	18.5		
								EV / 2P reserves	US\$/boe	15.5	16.1	17.9	21.0		
Cashflow Analysis							Per bbl statistics								
Cash receipts from operations	US\$m	2H11E	2H11E	FY11A	FY12E	FY13E	FY14E	Sales Revenue / boe	US\$/boe	126.7	110.0	103.0	106.5	93.5	92.0
less operating costs	US\$m	(5)	(8)	(11)	(18)	(47)	(64)	EBIT / boe	US\$/boe	73.3	63.8	56.6	59.1	40.5	43.9
less interest paid	US\$m	(1)	(2)	(2)	(3)	(5)	(3)	Profit / boe	US\$/boe	38.6	38.0	28.3	35.1	23.9	28.0
less tax paid	US\$m	(3)	(6)	(5)	(12)	(22)	(31)	OpeX/boe	US\$/boe	15.2	18.6	13.9	18.1	13.4	11.0
Gross cashflow from operation	US\$m	26	16	42	34	76	102	DDA/boe	US\$/boe	19.2	17.1	18.4	17.1	19.8	18.1
less expl & devlp	US\$m	(67)	(21)	(77)	(68)	(65)	(8)	NPV @ WACC of 11.0%							
less acq./inv.	US\$m	22	-	22	-	-	-	Developing assets	US\$m	A\$m	%				
less dividends	US\$m	-	-	-	-	-	-	Maari	195	0.21					
add debt movements	US\$m	60	-	50	-	7	-	Static assets & exploration							
add equity/other	US\$m	0	-	1	-	-	-	Maari upside - M2A/Maniaia	risked valuation @ 50%	54	0.06				
Net cashflow	US\$m	41	(5)	38	(35)	18	94	Beibu Gulf	risked valuation @ 80%	93	0.10				
+exchange rate adjustments	US\$m	0	-	0	-	-	-	Stanley liquids	risked valuation @ 50%	47	0.05				
Increase in cash	US\$m	41	(5)	38	(35)	18	94	Elevala/Ketu Liquids	risked valuation @ 40%	70	0.08				
Net debt (cash)	US\$m	29	34	(57)	(16)	(27)	(122)	Static & Exploration		136	0.15				
Balance sheet							Financial assets								
Cash	US\$m	2H11E	2H11E	FY11A	FY12E	FY13E	FY14E	Corporate	(28)	(0.03)					
Other current Assets	US\$m	5	5	5	5	5	5	Cash & Investments	65	0.07					
Fixed Assets	US\$m	224	240	224	280	308	274	Debt	(94)	(0.10)					
Total Assets	US\$m	293	304	293	315	361	422	Group NPV	539	0.58					
Current Liabilities	US\$m	33	29	33	27	27	27	Shareprice prem/(disc) to NPV			-64%				
Total Liabilities	US\$m	141	141	141	141	148	148	- core NPV per share (A\$)		0.25					
Shareholder equity	US\$m	153	164	153	174	213	274	- risked NPV per share (A\$)		0.58					
Ratio analysis							Valuation								
ND/ND+E	%	16%	17%	-59%	-10%	-15%	-80%	EV/EBITDAX ratio	x	10.9 x	11.4 x	4.4 x	5.5 x	2.6 x	1.9 x
Interest cover	x	30.0 x	nmf	15.4 x	nmf	nmf	nmf	P/E ratio	x	40.0 x	21.1 x	23.7 x	10.5 x	5.8 x	3.7 x
Dividend payout ratio	%	0%	0%	0%	0%	0%	0%	P/CEPS ratio	x	26.3 x	14.6 x	14.1 x	6.8 x	2.9 x	2.2 x
ROA	%	9%	6%	14%	12%	19%	24%	FCF yield	%	-2.9%	-1.3%	-1.4%	-13.7%	7.1%	43.0%
ROE	%	8%	7%	12%	13%	20%	25%	Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROIC	%	10%	11%	18%	15%	22%	42%	Sensitivities (Adjusted Earnings)							
Effective tax rate	%	19%	30%	23%	30%	30%	30%	Oil price (+US\$/bbl)	US\$m	NPV	FY11A	FY12E	FY13E	FY14E	
EBITDA margin	%	77%	74%	74%	73%	69%	68%			538.87	16	22	39	62	
EBIT margin	%	60%	58%	56%	55%	43%	48%	delta		0.01	-	0	1	1	
Free cash flow	US\$m	-12	-3	-5	-31	16	98	%		0%	0%	2%	2%	2%	
Valuation							NPV								
EV/EBITDAX ratio	x	10.9 x	11.4 x	4.4 x	5.5 x	2.6 x	1.9 x								
P/E ratio	x	40.0 x	21.1 x	23.7 x	10.5 x	5.8 x	3.7 x								
P/CEPS ratio	x	26.3 x	14.6 x	14.1 x	6.8 x	2.9 x	2.2 x								
FCF yield	%	-2.9%	-1.3%	-1.4%	-13.7%	7.1%	43.0%								
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								
Sensitivities (Adjusted Earnings)							NPV								
Oil price (+US\$/bbl)	US\$m	NPV	FY11A	FY12E	FY13E	FY14E									
		538.87	16	22	39	62									
delta		0.01	-	0	1	1									
%		0%	0%	2%	2%	2%									



Source: Macquarie Research, November 2011

Fig 2 Horizon Oil NAV breakdown

Production Assets	Interest	Unrisked mmboe	Unrisked USD (m)	Risk	Risky mmboe	Risky USD (m)	USD/boe	Aps risky	Aps unrisky	% NPV	Sensitivity			
											-\$10	Base	+\$10	
Maari	10.0%	5.2	195	100%	5.2	195	37.4	0.21	0.21	36%	0.19	0.21	0.23	
Sub Total		5.2	195		5.2	195		0.21	0.21	36%	0.19	0.21	0.23	
Developing Assets														
Maari upside - M2A/Manaia	10.0%	2.8	108	50%	1.4	54	38.8	0.06	0.12	10%	0.07	0.06	0.05	
Beibu Gulf	27.0%	6.3	117	80%	5.1	93	18.4	0.10	0.13	17%	0.09	0.10	0.12	
Stanley liquids	38.8%	4.2	94	50%	2.1	47	22.5	0.05	0.10	9%	0.03	0.05	0.05	
Elevala/Ketu Liquids	34.9%	8.3	176	40%	3.3	70	21.8	0.08	0.19	13%	0.08	0.08	0.10	
Sub Total		21.5	494		11.9	265		0.28	0.53	49%	0.27	0.28	0.32	
Static assets and exploration														
Beibu Gulf - Wei 12-8E upside	27.0%	4.8	50	40%	1.9	20	16.6	0.02	0.05	4%	0.02	0.02	0.03	
Stanley contracted gas	38.8%	23.9	139	25%	6.0	35	5.8	0.04	0.15	6%	0.02	0.04	0.02	
Stanley uncontracted gas	38.8%	3.7	11	20%	0.7	2	3.0	0.00	0.01	0%	0.02	0.00	0.02	
Ketu/Elevala uncontracted gas	34.9%	32.9	99	15%	4.9	15	3.0	0.02	0.11	3%	0.02	0.02	0.02	
Tingu - PRL 21	34.9%	15.1	248	5%	0.8	12	16.4	0.01	0.27	2%	-	0.01	-	
Matariki	30.0%	69.3	742	5%	3.5	37	12.0	0.04	0.80	7%	0.04	0.04	0.04	
Te Wahtu	30.0%	29.1	304	3%	0.9	9	12.0	0.01	0.33	2%	0.01	0.01	0.01	
Pukeko	30.0%	18.9	182	3%	0.6	5	12.0	0.01	0.20	1%	0.01	0.01	0.01	
Pike	30.0%	1.5	18	3%	0.0	1	12.0	0.00	0.02	0%	0.00	0.00	0.00	
Sub Total		199	1,793		19.3	136		0.15	1.93	15%	0.11	0.15	0.12	
Financial & Corporate														
Cash							65	0.07	0.07	12%	0.07	0.07	0.07	
Debt							(14)	(0.01)	(0.01)	-3%	(0.01)	(0.01)	(0.01)	
Convertible Bond							(80)	(0.09)	(0.09)	-15%	(0.09)	(0.09)	(0.09)	
Corporate costs							(28)	(0.03)	(0.03)	-5%	(0.03)	(0.03)	(0.03)	
Sub Total							(57)	(0.06)	(0.06)	-11%	(0.06)	(0.06)	(0.06)	
Overall total		226	mmboe				539	USDm	0.58	2.61	90%	0.51	0.58	0.62
- core NPV per share (A\$)		5						0.25			0.22	0.25	0.30	
- risky NPV per share (A\$)		36						0.58			0.51	0.58	0.62	
- unriskey NPV per share (A\$)		226						2.61			2.22	2.61	2.38	
Diluted shares outstanding (m)								1,133.5						
Ordinary Shares on Issue (m)								1,130.8						
New shares from options and convertible debt (m)								2.7						
Exchange Rate								0.82						
WACC (post tax)								11.0%						
Share Price								0.21						
Price premium to NPV								-64%						

Source: Macquarie Research, November 2011

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.35%	65.88%	56.94%	46.54%	74.68%	47.85%	(for US coverage by MCUSA, 11.63% of stocks covered are investment banking clients)
Neutral	31.99%	20.68%	31.94%	50.00%	23.42%	34.66%	(for US coverage by MCUSA, 9.30% of stocks covered are investment banking clients)
Underperform	10.66%	13.45%	11.11%	3.46%	1.90%	17.49%	(for US coverage by MCUSA, 0.47% of stocks covered are investment banking clients)

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Research

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John O'Connell (Global Co – Head)	(612) 8232 7544
Matt Nacard (Australia)	(612) 8232 4017

Consumer Staples

Food & Beverages

Greg Dring	(612) 8232 3104
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Consumer Discretionary

Media

Alex Pollak	(612) 8232 3172
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Retailing

Greg Dring	(612) 8232 3104
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Energy

Adrian Wood	(612) 8232 8531
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ESG

Aimee Kaye	(612) 8232 9772
------------	-----------------

Financials

Banks

Michael Wiblin	(612) 8232 6089
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Diversified Financials

Bryan Raymond	(612) 8232 2740
Deana Mitchell	(612) 8232 4576

Insurance

Tim Lawson	(612) 8237 7332
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Healthcare

Dr Craig Collie	(612) 8232 4130
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Industrials

Capital Goods

Greg Dring	(612) 8232 3104
John Purtell	(612) 8232 8633

Industrials

Transportation /Commercial Services

Ian Myles	(612) 8232 4157
Russell Shaw	(612) 8232 7124

Transportation – Infrastructure

Ian Myles	(612) 8232 4157
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Materials

Chemicals/Containers, Packaging/Paper & Forest Products, Construction Materials

John Purtell	(612) 8232 8633
Doug Macphillamy	(612) 8232 3114

Global Metals & Mining

Lee Bowers	(612) 8232 9834
Howard Carr	(618) 9224 0838
Sophie Spartalis (maternity leave)	(612) 8232 5159
Martin Stulpner	(618) 9224 0866
Andrew Sullivan	(612) 8237 6271

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Property Trusts & Developers

Paul Checchin	(612) 8232 4197
Rob Freeman	(612) 8237 1152

Telecommunications / Tourism & Leisure

Andrew Levy	(612) 8232 5165
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Utilities

Ian Myles	(612) 8232 4157
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Commodities & Precious Metals

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Kona Haque (London)	(44 20) 3037 4334

New Zealand

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Brooke Bone (Industrials/Energy)	(649) 363 1474
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Stephen Ridgewell (Healthcare/ Property/Strategy)	(649) 363 1476
Andrew Levy (Telecommunications)	(612) 8232 5165

Emerging Leaders

Adam Simpson	(612) 8232 4439
Andrew Wackett	(618) 9224 0867
Jodie Bannan	(612) 8232 2999
David Moberley	(612) 8232 7786
Deana Mitchell	(612) 8232 4576

Quantitative

Gurvinder Brar (Global)	(44 20) 3037 4036
John Conomos (Australia)	(612) 8232 5157
Burke Lau (Hong Kong)	(852) 3922 5494

Data Services

Sheridan Duffy	(612) 8232 9786
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Economics and Strategy

Tanya Branwhite (Strategy)	(612) 8232 7628
Richard Gibbs (Head of Economics)	(612) 8232 3935
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Email addresses

FirstName.Surname@macquarie.com
eg. David.Rickards@macquarie.com

Sales

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